

Tax-Free HSA's Take Sting Out of Rising Health Insurance Costs

By Phil Dougherty



Savvy consumers are discovering a unique way to significantly reduce the cost of their medical coverage *and* put away money for their retirement at the same time. What's their secret? Combining low-cost, high-deductible health insurance with innovative tax-free Health Savings Accounts.

Available since January 1, 2004, Health Savings Accounts, or HSA's, are finally catching on, as the cost of traditional health insurance continues to rise. Simply put, HSA's work like a "medical IRA", allowing customers to put away pre-tax earnings, from which they can withdraw funds at any time, tax-free, to pay for IRS qualified medical expenses. In addition to paying for medically necessary treatment this also includes dental, vision and long term care expenses. And, unlike most employer sponsored Flex Spending Accounts, the unused funds roll over from year to year, accruing tax-free interest. Also, should a non-medical need arise, the money is still accessible, although subject to tax and penalty, just like an IRA withdrawal.

In order to establish an HSA, one must obtain an HSA-eligible health plan first. One requirement of a qualified health plan is that the deductible be at least \$1,200 for an individual policy and \$2,400 for family coverage. There is a cap on annual out-of-pocket expenses too (not including premiums) of no more than \$5,950 for self-only policies and \$11,900 for family policies. The most one can contribute to the account is \$3,050 for self-only coverage and \$6,150 for family coverage. *(The above figures for deductibles, out-of-pocket expenses and contributions are for 2010 and change annually).*

The advantage of these comprehensive high deductible plans is that their premiums are some of the lowest in the state, and in comparison to other more generous plans, the savings in premium often outweigh the additional benefits.

The goal of the HSA program is to control skyrocketing health care costs by making individuals more cost-conscious in their use of health care services. It is assumed that, since more of the money will come out of their own pockets, there will be an incentive to balance the cost of procedures, choice of hospitals and doctors, and use of prescription drugs against the potential favorable impact on health. To address concerns that some individuals might opt to skimp on basic health care, preventive care can be exempt from the deductible of HSA-qualified plans.

For further advice on HSA's please consult your financial advisor or tax consultant. To learn more about HSA eligible health plans contact **Only Health Insurance Marketing**, a leader in the individual health insurance market (formerly Dougherty Health Insurance Sales). Their HSA eligible health plan experts can be reached at: 415-898-0212 or 800-924-1411, or email@onlyhealthinsurance.com. Or visit them at www.OnlyHealthInsurance.com.